



# The Federal Report

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## The Month in Washington: August 2005

August is the month when everybody – the president and members of Congress included – escapes the heat and humidity of Washington, D.C., and little of the nation's work gets done. The recess gave lawmakers a chance to rest up for what could be a busy September, as the Senate is scheduled to hold hearings on the nomination of John Roberts to the Supreme Court, President Bush prepares to nominate another justice to replace the recently departed William Rehnquist, officials respond to Hurricane Katrina and the criticism of the delayed federal reaction to the storm and the Sept. 30 deadline for the completion of annual spending bills approaches (and almost certainly will not be met). House Republicans had planned to take up Social Security and pension reform legislation in September, but, with so much to do and lawmakers' attention so distracted by the hurricane and the vacancies on the Supreme Court, those plans could end up being shelved.

### Issues and Events

#### IRS Extends Comment Period on 415 Regulations

The IRS in mid-August extended for two months the comment period on proposed changes to a portion of the tax code – section 415 – that could have negative effects on several aspects of public defined benefit pension plans.

For public employees, the proposals, as written, would have the most significant impact on cost of living allowances (COLAs). Eleven public employee and employer groups submitted a joint statement to the IRS at the agency's Aug. 17 public hearing on the regulations expressing concern that "the current proposed regulations appear to be detrimental to the inclusion of COLA mechanisms in defined benefit plans."

#### Board of New Health Care Group Continues Initial Steps

The Board of Directors of the Public Sector HealthCare Roundtable, a new advocacy group comprising public pension plans from across the United States, moved a little closer to becoming a national voice in the health care debate during its Aug. 31 meeting.

The board, which includes CalPERS Deputy Executive Officer Jarvio Grevious as president, reviewed dues, budget and marketing issues, among other topics during the meeting. It also adopted a set of goals and objectives, including:

- Educate policymakers about the unique characteristics of public plan sponsors

- Influence national debate for improved health care quality and cost reduction
- Reduce unsustainable health care cost trends
- Reduce costs for individual plan participants
- Share knowledge and expertise to make health care more efficient and cost-effective.
- Speak effectively as a collective voice for public sector purchasers

The group is to hold its annual meeting during the week after Thanksgiving.

### **Mandatory Social Security Coverage Concerns Raised**

Members of the Public Pension Network (PPN), a Washington, D.C.-based coalition of public employer and employee groups, reported at an August meeting that they have learned that mandatory coverage of state and local workers could be a part of the Social Security proposal from House Republicans.

The House is expected to take up Social Security reform legislation in September and Republican lawmakers have given mixed signals on mandatory coverage. The primary Social Security reform proposal that has been advanced by Republicans does not include mandatory coverage but some PPN members said they have heard from Capitol Hill sources that it has not been ruled out.

Forcing all newly-hired public employees to participate in Social Security would increase the program's revenues by \$44 billion over five years, a transfer of funds that could be tempting for lawmakers struggling with ways to improve the program's financing but that would create hardships for state and local governments now outside Social Security, their employees and their taxpayers.

Also at the meeting, PPN members expressed frustration over the continued lack of guidance from the U.S. government concerning investments in Sudan and other controversial nations.

CalPERS and 49 other public pension plans sent a letter on this topic to four federal agencies on June 3. "We need adequate information to determine whether companies in which our public pension funds are invested are doing business in Sudan so that we, as fiduciaries, can make informed investment decisions," the letter stated.

CalPERS and some other pension funds have come under criticism for investing in companies that do business in Sudan, since, critics say, this provides indirect support for a government that has been accused of genocide. Pension fund officials, though, say they cannot make foreign policy decisions and need guidance from the federal government to know where not to invest.

The Department of Commerce responded in early August with a letter identifying several online resources that contain information on entities and individuals that have been flagged by the U.S. government. The State Department responded in a similar fashion in

July. Neither department, though, provided what many public pension officials are seeking: a list that explicitly identifies companies to avoid.

### **NCHC Members Examine Public Attitudes on Health Care**

While one-third of Americans believe the U.S. health care system is so troubled that it needs to be overhauled, most are focused only on the costs of prescription drugs, not on the pricing pressures in the system as a whole, a representative of Harris Interactive told the National Coalition on Health Care (NCHC) at the group's Aug. 10 meeting.

According to the presentation on trends and forecasts in the U.S. health care system by Katherine Binns, Harris' senior vice president, 35 percent of consumers believe that the system "has so much wrong that we need to completely rebuild it," while 18 percent of employers, 11 percent of health plans and 9 percent of hospitals agree with that statement. In response to a question from NCHC President Henry Simmons about whether public concern about rising health care costs is increasing, Binns indicated that it is not. "Most adults are focused only on one aspect of cost and that's drug costs," she said. "That's where we're seeing the highest rate of increase" in the polls.

Among other findings in the Harris report:

- The Health Insurance Misery Index – which factors in unemployment rates and the amount that the percentage change in health benefit costs per employee exceeds the overall rate of inflation – dropped in 2004 after increasing for four years in a row.
- Only 15 percent of the public say that health care quality has improved in the past five years, while an equal number say it has worsened and 70 percent say it has stayed about the same. In contrast, 77 percent of hospitals, 49 percent of health plans and 33 percent of employers say it has improved.
- A little more than half of the health plans surveyed expect the demand for high-deductible health plans with health savings accounts to increase in the next two years. Such plans, according to Binns' presentation, save employers money on premiums but users of such plans are more likely than people covered by other insurance plans to eschew medical treatment – even for chronic conditions – because of costs.
- Two-thirds of hospital administrators think that pay-for-performance initiatives in Medicare will contain costs but only one-fourth think they will improve quality. The numbers are nearly identical regarding pay-for-performance initiatives in private health plans.

NCHC is a group of public pension, employer, labor, religious and civic organizations that advocates for health care reform.

## **Strategic Recommendations**

LGV&A is not offering any new strategic recommendations to the Board this month.

## **California Congressional Delegation**

### **Pelosi Inquires About Lack of Birthday Celebration for Social Security**

House Democratic Leader Nancy Pelosi of California and other Democratic lawmakers wrote to Social Security Commissioner Jo Anne Barnhart on Aug. 1 to ask why no public events had been scheduled to commemorate Social Security's 70<sup>th</sup> birthday on Aug. 14

"In the past, SSA has taken advantage of these opportunities to promote Social Security's success nationwide and to educate the public about the value of the benefits they were earning," the letter stated. "It is particularly striking that SSA has chosen to deviate from past practice and disregard the 70th anniversary, while the President has been aggressively promoting his plan to replace Social Security's guaranteed benefit with private accounts that are subject to the fluctuations of the stock market."

Pelosi has been one of the leading opponents of President Bush's proposal to make personal investment accounts a part of Social Security.

Senate Democratic Leader Harry Reid of Nevada, Sen. Max Baucus, D-Mont., and Rep. Charles Rangel, D-N.Y., also signed the letter.

## **Related National and Industry News**

The percentage of Americans covered by an employer-sponsored health plan remained essentially unchanged between 1997 and 2002, according to a study released in August by the Employee Benefit Research Institute.

The study found that 70 percent of workers were offered health coverage by their employers and 60 percent were covered by such plans in 1997. In 2002, 71.4 percent were offered employer-sponsored coverage while 60.7 percent had such coverage.

"While the percentage of workers with coverage has ebbed and flowed with the economy and health care costs, trends in the percentage of workers offered coverage and the percentage of workers taking coverage when offered have remained relatively steady," said Paul Fronstin, director of the EBRI Health Research and Education Program and author of the study.

Among workers whose employers did not offer health benefits in 2002, 46.3 percent had no health coverage, according to the study, while 37 percent had coverage as a dependent, 7 percent bought insurance directly from insurers and about 10 percent were covered by a public program.